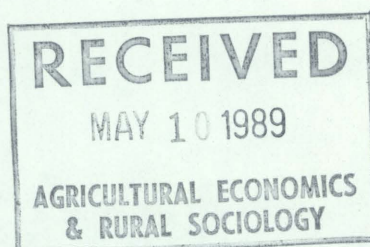


ECONOMIC ADJUSTMENT AND TRADE POLICY MOVEMENTS  
AMONG SUB-SAHARA AFRICAN COUNTRIES

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Economic Adjustment and Trade Policy Movements  
Among Sub-Sahara African Countries

Abstract:

We overview Sub-Sahara Africa's macroeconomic performance that precipitated economic liberalization policies. Policies of nine countries are analyzed from the perspective of economic growth; especially slow growth in agriculture, stagnation in real GDP per capita, unstable real exchange rates, high debt to GDP ratios, and low debt service to GDP ratios.



## ECONOMIC ADJUSTMENT AND TRADE POLICY MOVEMENTS

### AMONG SUB-SAHARA AFRICAN COUNTRIES

Sub-Saharan Africa (SSA) emerges by any account as the most economically disadvantaged region in the world. This study emanates from renewed international efforts to seek solutions to the SSA crises (especially in agriculture), which peaked during the famines of 1983-85. We present an overview of SSA's macroeconomic performance. Some countries share a common institutional framework for external adjustment. Members of the Communauté Francophone Africaine (CFA) are unable to devalue their nominal exchange rate for macroeconomic adjustment. Others, "non-CFA" countries, are able. Almost all of these countries are primary product producers, with a small industrial base and a service sector fuelled by public expenditures. Only a few are oil exporting.

Aside from Congo, a mineral exporter, the highest income SSA countries are oil exporters (Table 1). Growth of GNP per capita varies considerably. Cameroon (3.9% per year), Congo (3.6%) and Lesotho (5.6%) have experienced rapid growth rates due to oil, mineral extraction and links with the South African economy, respectively.

### POLICY LIBERALIZATION AND INSTRUMENTS

There is demonstrable SSA willingness to implement policy changes. Examples are reform programs instituted since 1983 by the World Bank (World Bank, 1981) and the Organization of African Unity (OAU, 1980). They recommended reduction of barriers to international trade, open market valuation of currency, parastatal privatization, open domestic marketing systems and improved production technology. By early 1987, about twenty-one SSA countries were undertaking structural adjustment either through the World Bank or under the International Monetary Fund (IMF). Both CFA and non-CFA countries are included, although none of the CFA oil exporters undertook reforms. This supports Devarajan and de Melo (1987) that membership in the CFA zone does not in principle impede adjustment to



macroeconomic imbalances. The most critical policy problems identified by the World Bank (1981, 1986) were trade and exchange rate biases against exports, poor public sector management and a bias against agriculture. During the 1980s, average per capita income in SSA fell by 25 percent. SSA's debt burden reached crisis proportions in about one-half of those countries.

Major policy reforms were geared toward more flexible foreign exchange controls. Major currency devaluations occurred in Ghana, Nigeria, Madagascar, Somalia, Sudan, Tanzania, Zaire and Zambia. Periodic auction markets have been set up (Ghana, Nigeria) and/or debt payments and government purchase of medical and educational supplies take place at administered exchange rates (Zambia). Exchange rate auctions may be the most important policy instrument (IMF, 1986). But their success depends on sufficient monetary and fiscal conservatism to prevent the erosion of devaluation-induced changes in relative prices.

Some countries are systematically doing away with government-controlled parastatals (Ghana, Nigeria). Others have ended state marketing monopolies. They include Niger (CFA), Congo, Malawi, Nigeria, Sierra Leone, Somalia, and Zambia (Non-CFA). Programs to privatize state investment in agriculture are found in Benin and Togo (CFA) and Ghana, Nigeria, Sierra Leone (Non-CFA).

While it has been difficult to quantify progress, the signals point toward progress. Positive adjustments include the lowering of real exchange rates, reduction in fiscal deficits and raising of export crop prices. There seems to be a correlation between good policy reform results and World Bank support and lending (Ghana). In most adjusting countries, steps have been taken to restructure public employment, rationalize and improve management in public enterprises, lift price and trade controls both domestically and externally, and strengthen government economic management especially through public investment programs (World Bank, 1988 p.28).



### PRODUCTIVITY GROWTH

The one indicator which demonstrates the need for policy liberalization is productivity growth. CFA oil exporting countries like Cameroon and Cote d'Ivoire, in addition to ranking among the highest in per capita GNP, experienced high growth rates in agriculture (compared to other SSA countries) between 1965 and 1980 (Table 1). In the 1980s these rates have been reduced. The discovery of oil and the fall in primary commodity prices have contributed to this change. Overall, Cameroon experienced higher industrial and service sector growth, a result of oil revenues in the 1980s. For Cote d'Ivoire, which depended on cocoa, coffee and oil revenues, commodity price falls translated into negative growth in the industrial and service sectors.

Among the non-oil exporting CFA countries, only the Central African Republic, Niger and Senegal experienced increased growth rates in agriculture during the 1980s as compared to 1965-80. For these countries, growth was only modest in agriculture and negative in the industrial and service sectors.

After the oil boom of the 1970s, Nigeria's agricultural production fell through the 1980s. The industrial and service sectors gained in production, in part from the transfer of resources from agriculture. Nigeria's economic growth was probably checked in the 1980s by low oil prices and poor policy management. Results from recent re-adjustment policies have not been realized yet.

For the non-CFA, non-oil exporting SSA countries, the decline in agricultural growth rates continues. Only Zambia and Zimbabwe have experienced even modest increases (pre-independence 1980 data on Zimbabwe cannot be used due to policy change). Industrial growth rates were high in Congo, Kenya and Liberia in the 1965-80 era due to booms in minerals, primary commodities and U.S. aid, respectively. But all countries except Congo experienced tremendous declines in production in the 1980s. Congo's mineral wealth accounts for its relatively high



GNP and growth rates among all sectors. The high amount of foreign aid that reached Ethiopia and Somalia has accounted for the rapid industrial growth rates observed in these countries. Aside from Ghana and Uganda, countries embarked on strong economic re-adjustment and civil war, the service sector's productivity rate fell for all countries in this group.

There is a recognizable relationship between low economic growth rates and the response to policy liberalization among SSA countries. None of the CFA oil exporting countries (which demonstrate relatively strong economic growth rates) have embarked on meaningful economic re-adjustment. Only Cameroon has initiated an economic stabilization program for 1988/89 by accepting a CFA \$20 billion loan from the French Fund for Economic Co-operation (CCCE).

Among the CFA non-oil exporting countries, only Burkina Faso, Rwanda and Senegal have not embarked on some restructuring. For the non-CFA countries, Angola, Botswana, Ethiopia, Guinea-Bissau, Lesotho, Liberia, Mozambique, Uganda, Zaire and Zimbabwe are not implementing policy liberalization. Of these, Angola, Ethiopia, and Mozambique are involved in civil war.

#### ANALYTICAL FRAMEWORK

Domestic economic policy linkages are analyzed from the perspective of economic growth rates, specifically the slow growth in agricultural exports and the rapidly increasing agricultural imports as financial situations worsen. We investigate the terms of trade of selected SSA countries as related to agricultural export and import volumes. We have already demonstrated agriculture's importance to GDP. We establish a uniform base for stylized comparison among all SSA countries in terms of the crisis facing agriculture.

We investigate the extent to which real GDP per capita (as a proxy for real income) has stagnated. We analyze movements within countries of the real exchange rate. Real exchange rate is defined as the nominal exchange rate times



a world price index divided by a domestic price index (Williamson 1985). The total debt of SSA countries in terms of their GDP and the total debt service to GDP ratio are also analyzed. The purpose is to find to what extent sectoral policies have been effected for economic growth. The total debt facing a country, as a percentage of its GDP, determines its external financial obligations and the net liquidity available for other domestic activities.

Any researcher of the SSA region is confronted with gaps in the official statistics. Some countries do not have published national data for all years. There are conceptual problems in converting data from different countries into single economic growth rates for a group of countries. We use secondary data from the tapes of the World Bank (total debt, total debt service, nominal GDP in local currency, population, nominal exchange rates, consumer price index) and the Food and Agricultural Organization of the UN (agricultural imports and exports).

#### ANALYSIS

Nine countries (Cameroon, Cote d'Ivoire, Gabon, Senegal, Nigeria, Congo, Ghana, Kenya and Zimbabwe) were selected for further analysis. Cameroon, Cote d'Ivoire, Gabon (CFA), Ghana, Nigeria and Zimbabwe (Non-CFA) accounted for 46% of total agricultural exports in 1980 and 1986. Gabon is the smallest exporter of agricultural products. Only Ghana and Zimbabwe are not oil exporters. Seven countries (Angola, Ethiopia, Cote d'Ivoire, Nigeria, Senegal, Sudan and Zaire) were importing over \$200 million each by 1986, led by Nigeria.

The oil price shocks of 1973-74 and 1979 resulted in large transfers of wealth especially to Nigeria (Non-CFA, oil exporting). Nigeria's public expenditures increased tremendously, as did the country's access to international capital markets. Agriculture, the main nonoil tradable sector, fell. Pinto (1987) showed that, in terms of export diversification, the share of oil in Nigeria's overall exports has been about 90% since 1974. Nigeria is a large



agricultural importer, which may be attributed to its large population (about 120 millions) and low agricultural productivity. Declining oil revenues and attempts at economic restructuring forced Nigeria to cut imports between 1981 and 86.

Most of these countries experienced windfall gains from the commodity price increases of the mid-1970s. Cameroon, Ghana and Cote d'Ivoire benefited from the coffee and cocoa boom of 1975-77. For these countries, agricultural exports have accounted systematically for over 50% of total exports. The boom, coupled with repressed producer prices, created a one-time opportunity for governments' current account balances to rise. In Cameroon and Cote d'Ivoire, this was assisted by the discovery of oil; and in 1985-86, by the decline in Brazilian coffee production. SSA's share of world coffee production rose to 27-28% as compared to the average of 23% during 1977-81 (USDA, 1987). Zimbabwe's agricultural exports are led by cotton and corn.

Where oil's share of GDP has been high (Nigeria, Gabon, Cote d'Ivoire), in all years except those immediately following the two oil shocks, domestic spending rose more than real GDP, and probably than national disposable income. This was reflected in the high relative total debt to GDP ratios (Fig. 1) for those countries by 1986. In Senegal, following the phosphates boom in 1973-75, and the droughts of 1977-78 and 1979-80, government policies led to an increasing debt to GDP ratio that has not been arrested in the 1980s. The Senegalese government has favored expansionary fiscal policy in maintaining private consumption and expanding public consumption. For Ghana, the total debt to GDP ratio was substantially lower, but Ghana's debt began to increase with the 1983 IMF-World Bank led economic revitalization program. Cameroon's borrowing strategy was more conservative. The debt ratio for most countries rose steadily throughout the 1970s, in part from the large surplus financial capital that was available in the form of petro-dollars. However, after the 1982 oil price



decline, all the listed oil exporters increased their foreign borrowing significantly.

Adjustment policy differences abound. The CFA oil exporting countries (Cameroon, Cote d'Ivoire and Gabon) consistently serviced their debts at higher rates in the 1970s than in the 1980s. Debt servicing fell after 1981 for Cote d'Ivoire. While Cameroon used oil revenues to retire part of its foreign debt, Nigeria (Non-CFA) did not. A final consideration is the ability of countries with high debts to repay, especially when caught in a high real interest rate-low oil price squeeze. Some countries (e.g., Nigeria) have reached the limit of their debt-carrying capacity. If government spending is not curtailed, inflation rates will accelerate. Seigniorage to finance deficits will result.

It is SSA's debt-servicing difficulties that continue to threaten economic recovery. According to the African Development Bank (ADB), Africa's external debt has grown steeply in recent years to an estimated \$218.1 billion in 1987, against \$187.2 billion in 1986--about 54.2% of which is owed by SSA (West African Magazine, 1988). In absolute terms Africa is the least indebted of the continents. It is the size of its debt obligation relative to available resources that makes it critical.

The GDP per capita (Fig. 2) reflects the consequences of excessive spending practices. Following the initial oil shocks of the early 1970s, GDP per capita continued to increase for the oil exporting countries (Cameroon, Gabon, Cote d'Ivoire and Nigeria). Apart from Cameroon, all countries showed a decline in GDP per capita after the oil price decline of the early 1980s and the lower production limit agreed to by the Organization of Petroleum Exporting Countries.

For Ghana, growth was steady at best. Ghana's 1986 gross national product (GNP) of \$390 places it slightly below the middle-income economies. The spurious rise in real GDP between 1979-82 may be attributed largely to large foreign



remittances from Ghanaians abroad and the absence of inflationary adjustment. The picture contradicts the recession that faced Ghana from 1979 through 1983, and which triggered a World Bank-IMF led adjustment program. Short-run results of Ghana's adjustment policies have been very impressive and the World Bank is touting it as a model for SSA economic development.

What sets CFA zone members apart from all others are monetary integration, currency convertibility and a fixed exchange rate. As can be seen from Fig. 3, real exchange rate movements, though different in magnitude, have followed similar trends for the selected CFA zone countries. Generally, all the countries experienced currency depreciation from 1971 through 1980. But the rate of depreciation slowed after the coffee and cocoa boom of 1976-77 and the post-1978 oil boom for Cameroon and Cote d'Ivoire. We also need to account for the appreciation of the U.S. dollar which started in the fourth quarter of 1980, since we indexed our calculations with the U.S. CPI. All the countries experienced currency appreciation until 1985, followed by a quick drop in 1986. Since most countries face different macroeconomic difficulties, unique paths toward adjustment are required. For instance, Cote d'Ivoire is faced with massive deficit which requires servicing soon. Cameroon, on the contrary, has been running sizable current account surpluses.

The Cameroonian government used its liquid position to raise producer prices of cash crops, thus keeping the real exchange rate from highly appreciating relative to all other CFA countries. In addition, a well-documented bias of the public expenditure mix toward investment rather than consumption has been enacted. Cote d'Ivoire, on the contrary, accelerated public investment, begun in 1974, in large projects with high unit costs, long gestation lags and low foreign exchange earnings potential. This highlights some of the problems facing the CFA zone, and which calls for monetary integration.



For all other SSA countries, adjustable peg exchange rate policies have been supported through reserve intervention. Notable among them is Nigeria, in which private sector excess demand at the official rate was satisfied through reserve depletion before 1981. The government, reluctant to adopt more flexible rates, began rationing the official exchange through an import licensing scheme. The post oil-price decrease of 1982 has exacerbated the situation. It is not known if the small exchange rate rise in 1986 can be sustained. If liquid assets acquire option values, and without credible reforms, capital flight and probably a higher black market premium may result.

In Ghana, foreign reserves were unavailable to finance the official rate. The resultant premium on foreign exchange provided an incentive for the emergence of parallel markets. Subsequently, exports and imports went through the parallel market as well. Until 1983, when adjustment started taking hold in Ghana, the real exchange rate depreciated (Fig. 4). Rapid depreciation and inflation placed a constraint on imports. Necessary technological transfer and capital goods needed for economic growth were unavailable.

The real exchange rate for Kenya has been almost uniformly high throughout the study period. Rates for Zimbabwe and Zambia were uniformly low.

#### CONCLUSION

Obviously, SSA's peculiar economic problems must be of poignant concern. We have used various economic indicators to show SSA's agricultural trade, macroeconomic policies and economic growth linkages. We have noted the performance of selected countries using different macroeconomic instruments. The responses toward Western-style economic adjustment have been vastly different and sometimes slow. SSA has not been able to take advantage of the burgeoning world markets.



Most countries with high GNP are oil exporters (Cameroon, Cote d'Ivoire, Gabon, Nigeria) or mineral exporters (Congo). Among those, the majority belong to the CFA zone. Even with its lower contribution to GDP, the agricultural GDP per capita in those countries with high GNP tends to be higher than that for the lower income countries (except for Nigeria). This is reflected in productivity growth for agriculture.

Except for Cameroon which recently adopted policy liberalization, other CFA oil exporting countries have not begun using economic re-adjustment tools. Even though they face some of the highest debt rates, these countries demonstrate the economic potential to provide attractive markets for expanded agricultural imports. Institutional constraints (such as foreign exchange rates) provide notable hurdles toward market integration.

For all other groups of countries, it is still too early to tell if instituted policy liberalization measures will achieve the desired long-term diversification needed for the region to become competitive on the world market. Recognizable common features among all non-oil exporting countries are low per capita GNP or GDP, relatively low agricultural productivity, but relatively lower debt to GDP ratios and lower debt service to GDP ratios. Major differences arise from the exchange rate policies of the CFA group relative to all others. Future adjustment policies for the CFA zone need to take stock of monetary integration. Otherwise, prospects for independent economic growth and hence the enhancement of tools to satisfy demand structures is dim.



Table 1 Institutional Classification of Sub-Sahara African Countries

	GNP	per	capita	Average Annual Production Growth Rates (%)					
				Annual Growth					
				Rates (%)	Agriculture	Industry	Services		
Country	Dollars	1986	1965-86	1965-80	1980-86	1965-80	1980-86	1965-80	1980-86
CFA Oil Exporting									
Cameroon		910	3.9	4.2	2.0	8.1	15.9	4.8	7.0
Cote d'Ivoire		730	1.2	3.3	0.9	10.4	-1.9	9.4	-0.5
Gabon		3080	1.9	--	--	--	--	--	--
CFA Non-Oil Exporting									
Benin		270	0.2	--	3.0	--	10.2	--	1.8
Burkina Faso		150	1.3	--	2.7	--	2.1	--	2.4
Burundi		240	1.8	3.3	1.3	7.8	4.9	2.7	3.2
Central Afr. Rep.		290	-0.6	2.1	2.5	5.3	1.7	2.0	-0.5
Chad		--	--	--	--	--	--	--	--
Guinea		--	--	--	0.3	--	0.1	--	2.1
Mali		180	1.1	2.8	-2.3	4.2	4.0	7.0	3.8
Niger		260	-2.2	-3.4	2.8	11.4	-4.3	3.4	-8.0
Rwanda		290	1.5	--	0.9	--	4.8	--	1.1
Senegal		420	-0.6	1.4	2.3	4.8	4.0	1.3	3.2
Togo		250	0.2	1.9	1.7	6.8	-2.2	5.4	-2.3
Non-CFA Oil Exporting									
Angola		--	--	--	--	--	--	--	--
Nigeria		640	1.9	1.7	1.4	13.4	-5.1	8.8	-4.0
Non-CFA Non-Oil Exporting									
Botswana		--	--	--	--	--	--	--	--
Congo		990	3.6	3.1	-0.6	10.3	8.4	4.7	3.7
Ethiopia		120	0.0	1.2	-3.9	3.5	3.8	5.2	5.1
Gambia		--	--	--	--	--	--	--	--
Ghana		390	-1.7	1.6	-0.2	1.4	-2.4	1.1	3.3
Guinea-Bissau		--	--	--	--	--	--	--	--
Kenya		300	1.9	4.9	2.8	9.8	2.7	6.4	4.2
Lesotho		370	5.6	--	1.6	--	-3.9	--	2.7
Liberia		460	-1.4	5.5	1.2	2.2	-6.0	2.4	-0.8
Madagascar		230	-1.7	--	2.1	--	-3.6	--	-0.7
Mozambique		210	--	--	-15.9	--	-13.3	--	0.2
Sierra Leone		310	0.2	2.3	0.5	-1.0	-2.4	5.8	1.5
Somalia		280	-0.3	--	7.9	--	-5.1	--	3.6
Sudan		320	-0.2	2.9	0.4	3.1	2.1	4.9	-0.3
Swaziland		--	--	--	--	--	--	--	--
Tanzania		250	-0.3	1.6	0.8	4.2	-4.5	6.9	2.9
Uganda		230	-2.6	1.2	-0.1	-4.1	0.9	1.1	3.3
Zaire		160	-2.2	--	1.7	--	2.7	--	-0.7
Zambia		300	-1.7	2.2	2.8	2.8	2.1	--	-0.7
Zimbabwe		620	1.2	--	3.4	--	0.8	--	3.7

-- data not available

Source : World Bank, World Development Report. 1988.



Total Debt to GDP for  
Selected Sub-Sahara  
African Countries

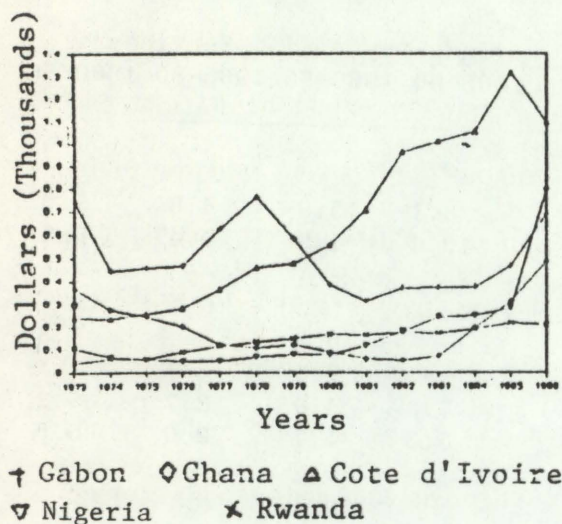


Figure 1.

Per Capita Gross Domestic  
Product for Selected  
Sub-Sahara African Countries

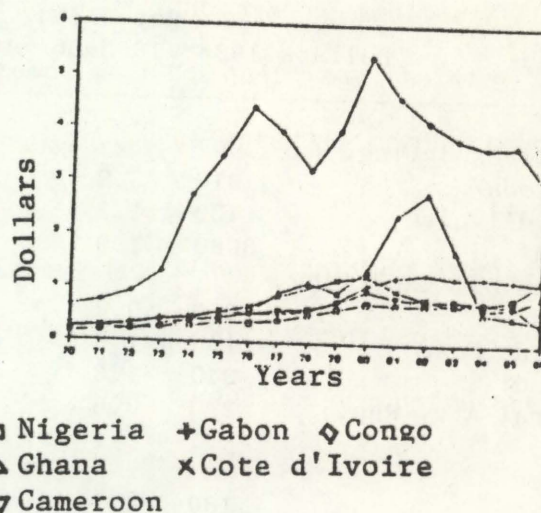


Figure 2.

Real Exchange Rates for  
Selected Francophone  
African Countries

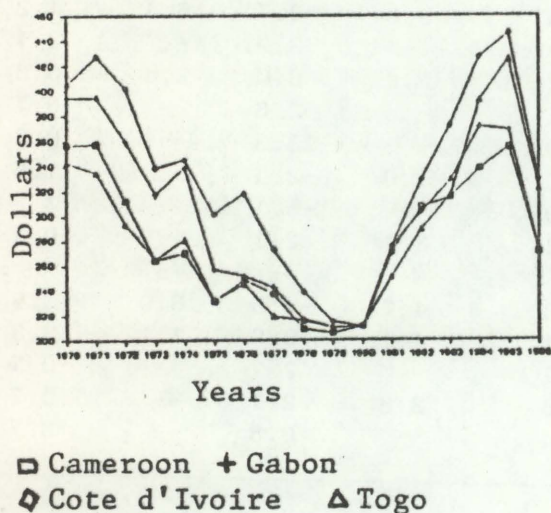


Figure 3.

Real Exchange Rates for  
Selected Anglophone  
African Countries

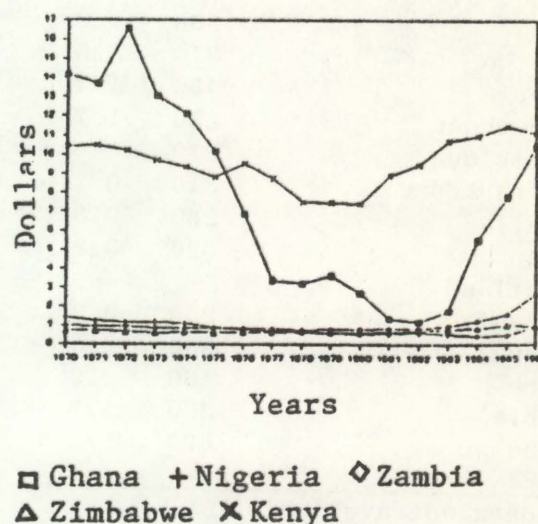


Figure 4.



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